

IRS REQUESTS COMMENTS ON CASH BALANCE PLANS

WASHINGTON -- The Internal Revenue Service and the Treasury Department invite comments from employees, employers and their representatives on issues relating to retirement plans known as cash balance plans. The agencies will use the comments in their analysis of tax law issues raised by these plans.

A cash balance plan is a defined benefit pension plan that typically bases an employee's retirement benefit on the balance of the employee's account. This account balance grows through the addition of hypothetical allocations and earnings, each of which is determined under a formula in the plan.

In recent years, employers have converted traditional defined benefit plans covering many employees to cash balance plans. The new cash balance formula often applies to employees who had earned benefits under the old plan benefit formula. The law protects these employees by prohibiting plan amendments that reduce benefits once employees have earned them.

In some conversions, employees with previously-earned benefits may earn no additional retirement benefits for varying periods of time, until the ongoing cash balance formula catches up with the employees' protected benefits. This effect is often called a "wear-away" or "benefit plateau."

The IRS and Treasury welcome comments on tax issues related to cash balance plans, conversions, and wear-away or benefit plateau effects. The IRS will make the comments available to the public, so commentators should not include personal tax data or other information that they do not want disclosed. The comments will also be shared with federal agencies that administer other laws governing pension plans, such as the Age Discrimination in Employment Act (ADEA) and the Employee Retirement Income Security Act (ERISA).

Comments are requested by January 18, 2000, and may be sent to IRS, Attn: CC:DOM:CORP:R (Cash Balance Plans and Conversions), Room 5226, PO Box 7604, Ben Franklin Station, Washington, DC 20044. Comments may also be submitted electronically through the "Tax Regs" option on the IRS Web site, www.irs.gov. A formal notice requesting comments will be published in the *Federal Register* on October 20, 1999.

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